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ABSTRACT

Selected presentations from a 1988 seminar on international trade hosted by Midland College (MC) are included in this report. Designed to direct west Texas businesses toward diversification and to prepare them for international trade and business opportunities, the seminar featured speakers in the field of international trade, including bank administrators, corporate presidents, and college professors. The six seminar presentations contained in this document are as follows: (1) "From Extraction to Education: Texas in Transition to an International Economy," by W. Michael Cox, which discusses the need for companies to move from purely domestic sales to international marketing; (2) "Small Business Administration in International Trade," by Joseph Pena, which reviews the reasons for limited involvement in international trade by smaller business; (3) "Export Now: The Challenge To Go International," by John A. Adams, Jr., which identifies U.S. export trends and investment opportunities and provides specific information for companies seeking to engage in international trade; (4) "Business Negotiations with the Japanese," by Kazuko Rowland, which discusses the important cultural differences to consider when negotiating with Japanese business people; (5) "European Economic Unification," by Toby D. Atkinson, which considers the economic unification of Europe planned for 1992 and the implications for U.S. trade; and (6) "Texas Export Opportunities with Mexico," by Rebecca Bannister, which reviews twin-plant (maquiladora) arrangements with Mexico, and describes mechanisms for businesses to increase product sales to Mexico. (JMC)

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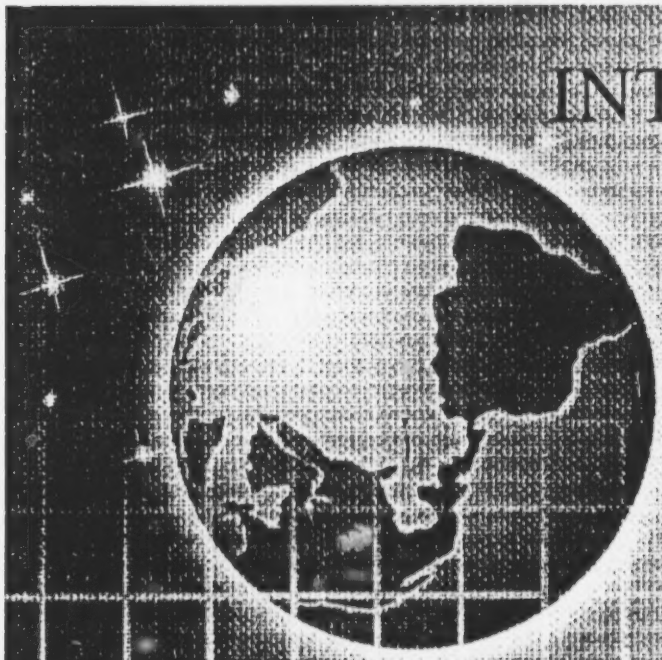

INTERNATIONAL TRADE SEMINAR

Presented By:
Midland College
Business and Economic
Development Center

Permian Basin
Private Industry Council
Employment and Training
Program

And

Carl Perkins Act Grant
Awarded By Texas
Higher Education
Coordinating Board

December 2, 1988

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FOREWORD

On December 2, 1988, a giant step was taken toward directing West Texas and West Texans toward diversification and preparing themselves for international trade and business opportunities. With an eye toward the future, the Midland College Business and Economic Development Center, in conjunction with the Permian Basin Private Industry Council Employment and Training Program and the Carl Perkins Act Grant awarded by Texas Higher Education Coordinating Board, presented a full-day seminar on International Trade. Other participating sponsors included Howard College, Midland Black Chamber of Entrepreneurs, Midland College, Midland Hispanic Chamber of Commerce, Odessa College, Odessa Chamber of Commerce, Service Corps of Retired Executives /Active Corps of Executives, Small Business Administration, Small Business Development Center of The University of Texas - Permian Basin, Students in Free Enterprise, and Texas State Technical Institute.

Featured speakers for the seminar included prominent leaders in the field of international trade such as Dr. John Adams, Jr., of Adams International Ltd., who was named Small Business Administration Exporter of the Year for 1988; Toby Atkinson, Assistant British Consulate General; W. Michael Cox, Assistant Vice President and Senior Economist with the Federal Reserve Bank-Dallas; Joseph Pena, Regional Administrator, Region VI, Small Business Administration; Ken Long of Transoceanic Shipping in Houston; Thomas Pratt, President, Chinamerica Countertrade Corporation; Ron C. Schwisow, President of Teraco, Inc.; Rebecca Bannister, Director of the Office of International Trade, Texas Department of Commerce; Dr. Nancy L. Hart, Midland College Legal Assistant Professor; Vijay J. Fozdar, Managing Director of Bristol International, Ltd.; and Kazuko Rowland, Japanese born and educated Midland College Research Assistant.

Over 100 attendees heard Seminar topics covering a diversity of international trade subjects including NonTariff Barriers, European Economic Unification, Texas Export Opportunities With Mexico, Benefits and Hazards of Exporting, International Marketing and Financing, Small Business Administration in International Trade, The Opportunity and Challenge of Exporting Worldwide, From Extraction to Education: Texas Economy in Transition to an Internaticnal Economy, Starting an Exporting Operation, Role of Freight Forwarders in the Export Business, Negotiations With the Japanese, and Doing Business With The People's Republic of China.

It is with regret that we are unable to include copies of all the presentations, and we do express our sincere appreciation to Dr. John Adams, Jr., Toby Atkinson, W. Michael Cox, Joseph Pena, Rebecca Bannister, and Kazuko Rowland, who so graciously furnished us with their presentations and granted us permission to reprint them here for your future reference and use.

Dr. Jerry Lee Jones
Chairman, Business Studies
Midland College

From Extraction to Education: Texas in Transition To an International Economy

W. Michael Cox

There are basically three steps in going from selling purely domestically to selling internationally:

The first is 1. Recognizing the opportunity and need for doing so. Getting motivated and committed.

2. Deciding what products to market.
3. Learning how, that is, learning the physical procedures.

I'm going to talk about the first two of these -- mainly the first -- because there are a number of qualified other speakers to talk on the physical procedures. I think it is clear that, if you decide to go international then you'll be able, much easier than you think, to complete the steps necessary to reach that goal. I am convinced that more international sales are lost because we in the US can't get motivated to think international, than because we can't find out how to do it once we decide to.

So my job here today, as I see it, is to try to keep you from going back home and saying "nay.., I don't think that I want to go to the trouble to go international." In short, I'm here to put a burr under your saddle.

How am I going to do that? Hopefully, by giving you some glimpse of the future and thereby convincing you that, in the long run, going international is not really a choice, it's not an option, it's fast becoming a requirement for most businesses in order to be able to simply stay "in the saddle".

Most of us don't produce products which are protected from international competition like steel and agriculture, as mentioned by Nancy Hart, this morning. Most of us either now face or in the near future will face strong foreign competition in the sales of our product. The world as a whole is clearly moving sharply in the direction of free trade. The pot is being mixed a whole lot more now than it used to be. So if we don't learn to sell internationally to replace the domestic buyers that we're going to lose to foreign suppliers, then we're simply going to have less business overall. You ought to think of selling to local markets as a luxury, and selling internationally as a necessity.

Now, being one who day-in-and-day-out studies economics and economic trends, and makes a living providing rich analysis to the Federal Reserve and, from time-to-time, to Congress, I am convinced that the trend toward free world trade, indeed toward one world economy, is

not a fluke -- it's not just the pendulum swinging one direction only later to swing back the other. It's a permanent and predictable change. And there is essentially one central factor which is underlying or you might say "driving" the move to more free trade. This force is technological change. And so I want to begin today by talking about technology, and the technological forces reshaping the world today.

Technology is today clearly reshaping the entire world:

-- Technology is changing the patterns of production across nations as well as across states.

-- Technology is reordering the patterns of trade among nations.

-- It is reshaping people's jobs, the value of education, the management behaviour of industry, and so on.

-- Technology is redefining competitiveness.

-- Technology is indeed even affecting the notion of national sovereignty and optimal economic policy. Rapid technological progress has led to the need for changes in economic policy -- such as those changes found in the new round of GATT, the US/Canadian Free Trade Agreement, and parts of the new Omnibus Trade Bill.

-- It goes without saying that technology is currently playing a major role in the economic development of the Southwest, and it's a role that is second to no other.

The world truly is in a period of unprecedented, deep and continual technological change. There's been a technology explosion. Many casualties of this explosion are becoming obvious.

As Mike Blumenthal has reminded me ... "Just four decades ago, the world had [only] ... one computer, the ENIAC, built at the University of Pennsylvania. It weighed 30 tons, utilized 18,000 vacuum tubes, stood two stories high, [and] cost many millions.... Within less than three decades..., the industry was producing a microcomputer that was 20 times faster ..., ten times more reliable, requiring roughly only (1/4000) the power and (1/300,000) the space. ...Results? ... In the seventeenth century it took Johannes Kipler four years to calculate the orbit of Mars. Today a microprocessor can do it in four seconds flat."

"So what?" you may say. Well, today, the benefits of information processing are no longer limited simply to the rapid calculation of statistics, but extend to the actual performance of a number of complex tasks, such as those found in the transportation equipment industry

(where special microprocessors in autos are an example), in the electronic equipment industry (robots are an example here), in the scientific instruments industry (where medical equipment is an example), in the chemicals processing industry (with pharmaceuticals and special polymers as examples), and in the telecommunications industry where the examples are simply too numerous to name.

But the technological revolution is not just limited to information processing. We are simultaneously seeing rapid advances in biochemical and biogenetic engineering, and also in the development of newer and more exotic materials. The development of highly drought-resistant species of plants, for example, is likely to greatly enhance the agricultural production of many nations which heretofore had only semi-arable land. And the development of new materials such as hard plastics and special ceramics will affect the demand for older materials such as copper, tin, aluminum, and steel.

The result is that technological change is altering world trade and production. In short, the United States, like the rest of the world, is in a very critical period of transition. We are in a period where we are establishing those industries which will offer our new comparative advantage, our new competitive edge in production, for the remainder of the 1900s and into the next century. This is particularly true for the Southwest. The Southwest, I feel, is in a critical "make -or-break" period -- a period where we either are going to change our ways or relegate ourselves to 50 or more years of second-rate economic performance. We'll either establish a new industrial base to take the place of oil because oil's never coming back (nor do we want it to), and we'll either learn to do business with the rest of the world, or we'll just pay the price.

Why do I say that the critical period -- the period of decision -- is upon us -- now? I say so because the economic well-being of the Southwest is now proving so vulnerable to the one-sided nature of its oil based economy; because the Southwest now crucially needs deversification; because the nature of production and trade is changing rapidly worldwide and the world will leave us behind if we don't change with it. I say so because the world is in a period of rapid technological progress, and that technological progress is redefining this nation's as well as this region's competitive edge for the new long run.

But -- what will be our new competitive edge? To <u>which industries</u> should we look for transitioning our economy to its new industrial base? How much of this is <u>already happening</u>? What factors are affecting the <u>speed</u> at which our area re-industrializes? These are the three questions that I would like to address in the remainder of my talk.

Lets begin with the last question first. What factors are currently affecting the speed at which our economy re-industrializes? For the U.S. as a whole there is one key factor -- the international value of the dollar. But for the Southwest, there is clearly also another factor that is equally as important -- the oil industry.

Let's consider the oil factor first. For many years, our region's economy was based largely on oil and, in particular, on the oil extraction industry. More generally, the economy was largely earth derivative in nature. Its well being was derived largely from the ground -- from oil, agriculture, cattle, and land. Such an economic dependence gave our region substantial

prosperity, but could not, of course, last forever. Instead, such a dependence has left a legacy for today that is no doubt slowing the region's transition to a new industrial base. This legacy is found largely in our attitudes about education and about marketing.

Being from Arkansas, I'm one who has always been somewhat envious of the prosperity that Texas and other states in the Southwest have enjoyed. When younger, I was convinced that God simply intended for Texans to be richer than others, and that's why he gave them oil. Today, however, I am a Texan and it seems more like we're being punished. Furthermore, it's going to continue to seem that way until our attitudes about education and marketing change. Oil extraction is a relatively low-education way of life, and oil is a product which (thanks to Henry Ford) requires relatively little marketing. The basic lesson that our earth-derivative economy taught us, then was that business was easy. We had basic products which people needed, and the world would beat a path to our door to get them.

This, however, is not the nature of the world today. Look at Japan. Japan is the perfect counter-example to much of the Southwest. Japan has no oil, virtually no agriculture, no cattle, and relatively little land. Yet they are perhaps the most successful economy in the world today. Why is this? Recently, while visiting with an economist from Japan, I asked him "What makes Japan so successful?" His reply (in English, I might add) was that "In Japan, you need education." What he was telling me was that Japan is selling products which largely embody education -- call them high-tech products if you'd like -- but their products are relatively intensive in knowledge and education, and relatively scarce in other factors such as natural resources. Japan no longer has cheap labor, so this is not the resource that they are selling. It's education.

But notice also that they are selling their products, with the emphasis on selling. For many years now, Japanese businessmen could be found on planes all over the world, travelling in order to actively market their products and to extend their customer base. Marketing is essential in today's world ecomomy. It's not just a question of getting new markets; it's a question of keeping the ones that we have. (Our nation's trade deficit is, in part, a marketing deficit).

What does all of this have to do with oil prices? The oil price decline, which has carved such a deep and enduring recession in our regional economy, has certainly not been welcomed. It has caused severe unemployment in many areas, compounded our over-building of commercial property, and restructured our regional banking system. On the positive side, however, it is likely that the shock offered our economy by such a severe decline in oil prices has hastened the area's transition to a new industrial base -- one that is not rooted so deeply in oil extraction as before, but in a new comparative advantage. Such a re-industrialization of our region was, in the end, inevitable given the rapid technological progress worldwide, and the eventual restructuring of world production and trade that it implies. To say nothing of the fact that oil is a depletable resource. The recent behavior of oil prices no doubt plays a major role, though, in encouraging that transition for our earth-based economy.

Also helping to encourage our transition has been the international value of the dollar. Over the past three years, the dollar has dropped dramatically. But it has not declined evenly against all currencies. The dollar is down roughly 60% in real terms relative to the yen and

nearly 50% against the mark and a basket of other European currencies; but it has declined relatively little against the Canadian dollar, the currencies of the PACNIC countries, or Latin America, but cheaper relative to the products manufactured in Japan and Europe.

What are those products? We all know that these are the relatively high-tech products such as instruments, electronics equipment, transportation equipment, non-electrical machinery, and chemicals (including petrochemicals) -- all, notably, being durable goods industries. Our estimates at the Dallas Fed, in fact, show that these five major industry groups stand to benefit on average nearly 10 times as much as others -- such as apparel, textiles, and food processing -- from the dollar's recent declines.

In fact, one could make a good case that recent U.S. trade policy has been designed to encourage our country to develop a new industrial base. To the extent that it involved a conscious effort to devalue the dollar against a relatively narrow set of currencies such as the yen and the mark, while not against others, recent U.S. trade policy has strengthened the international competitive position of our relatively high-tech and high-education industries while benefiting others much less.

Regardless of the issue of policy's intent, though, the basic message for the Southwest economy is the same. Extraction is out; education is in. Durable-goods manufacturing industries must play a key role in our new industrial base. Also, to the extent that we do remain in the oil business, we need to focus our attention on the relatively high education and high value-added end of the business, such as the manufacture of hard plastics, various polymers, and biodegradable plastics, and also such as oil and gas field machinery and equipment, and not on the relatively low value-added end of extraction. Certainly the relatively high-tech end of the service industries, such as telecommunications, also are critical to the formation of this new ecomomic base.

What else can we say about technology and the new economic base of the Southwest economy? Our area of the country is clearly unique in many ways. Perhaps the most distinguishing of our features, however, is our geographical proximity to Mexico. The Southwest in general, and Texas in particular, is uniquely geographically positioned to serve as a crossroads of commerce between the U.S. and Latin America. In addition, our proximity, allows us to benefit from a complementary labor force south of the border like Japan has benefitted from involving its PACNIC neighbors in the production process of many of its goods. Following the example of Japan and its satellite economies, our area should be involved chiefly in the education-intensive end of the production process -- such as research, development, testing, and initial phases of production of a good -- with final assembly and the more labor-intensive phases of the process performed by our neighbors to the south.

I think there is now also reason to believe that Mexico will cooperate and indeed even encourage such joint production processes. Mexico has a new President, Carlos Salinas de Gotari, who is trained in Economics, holding a Ph.D. from Harvard University. Salinas is committed to modernizing Mexico, and to opening that economy to the rest of the world. He has taken steps to (i) encourage foreign investment in Mexico, (ii) allow investment abroad by Mexican citizens, (iii) balance the budget, (iv) reduce Mexican debt, and (v) lower inflation. Over the past year, for example, inflation in Mexico has fallen steadily from an annualized rate

of over 60% to less than 12%.

I might add that, normally, I wouldn't trust so much that such a radical change in a country's behavior would be permanent; but Mexico's turnabout is not unique in the world for the past decade. Indeed, perhaps the most dramatic social development of the 1980s has been the world-wide spread of the idea that market forces and aggressive capitalism are the engines of material progress. And ultimately, it is the technological revolution that lies behind the spread of capitalism because the private sector accepts technological change much more rapidly than does government. Technology is forcing a social revolution worldwide, which we are seeing not only in the relatively small examples of Taiwan, Korea, and the Japan satellites, but more significantly now in the modernization even of China, the Soviet Union, and, I feel also, ...Mexico.

Already, Mexico is this region's largest trading partner -- 60% larger in fact than Canada -- which is the largest trading partner of the U.S. as a whole. The Southwest stands to gain even more substantially from development of joint production facilities and other types of multinational business connections with Mexico.

In short, then, the answer to the question ... "Which industries should we look to in forming the new economic base of our region for the next several decades?" ...is...the relatively high-tech and high-educational oriented industries, with particular attention to those types of industries for which cost savings from joint U.S./Mexican production is made possible. This prescription could help cure many of the economic ills of the national economy. Our nation's persistent trade deficit will disappear only 1.After we have solved our international marketing deficit. 2.After we have learned to take advantage like Japan has of complementary nearby labor forces such as that available in South and Central America, and 3. Finally and most importantly, after we have developed a highly-educated labor force to capture the benefits of the rapid technological progress that has so generously endowed our nation.

This brings us to the final question which I would like to address. How much of this is already happening? In particular, how much is happening in the Southwest -- for our area? The answer is : Quite a lot, but much more could be done. Three positive signs of our efforts to re-industrialize are:

-- 1. First, our area has begun to diversify. Recent work done jointly at the Dallas Fed and SMU shows , for example, that Texas has diversified its industrial base by over 35% since 1983, as measured by a widely accepted diversification index.

-- 2.Second, the Southwest has begun to develop a number of joint U.S./Mexican production facilities and other such cost-savings business relationships. Examples of this are the Maquiladora industries which have become increasingly popular in recent years, and the comparatively new free-trade zones, such as the 1000-acre free trade zone established at DFW airport.

-- 3. And, third, our area has begun to show a more open-minded attitude -- that is, a more open-economy-minded attitude -- toward business. One example of this is the outstanding attendance at the recent conference in Dallas entitled "Small Business: The World is Your Market," and conferences like this one.

Turning to the negative side, however, are three other factors.

--1. First, we as yet have no world-class university or universities to support a reputation of commitment to high-tech and high-education oriented industry. Investment in such institutions is essential to building the right climate. Investment in education is essential. Kids..., do your homework!

-- 2. Second, tax and tariff laws could be more favorable to our area. One example is the recent Free Trade Agreement with Canada. Such an agreement will certainly benefit our area, but will frankly benefit other parts of the nation much more, such as the Northeast. What the Southwest needs is a Free Trade Agreement between the U.S. and Mexico.

-- 3. And finally on the negative side, I am still concerned about the issue of marketing. Over the past two months at the Bank, I have met with business representatives from Japan, the United Kingdom, China, Turkey, and Brazil, and last week I met with some Soviet economists. So, I'm very aware of the degree to which foreign businesses are seeking new markets for themselves here. We must learn to do the same.

Indeed, in view of the unprecedented deep and continual technological change that is today reordering the patterns of production and trade worldwide, we must go "From the Southwest to the World" to market our products ... and our ideas. Thank you.

["Such simple things" as one export/import trader who was in my office recently reminded me "as the fact that Mexico is in our same time zone, mean a lot for lowering the cost of doing international business."]

Largest Export Opportunities

1. Telecommunications equipment

2. Communications and computer equipment

3. Machine Tools and Metal Working Machinery

4. Oil and Gas Field Machinery and Equipment

5. End users of plastics, polymers, and resins. High-tech petrochemical applications

Small Business Administration In International Trade

Joseph Pena

Good morning. I'm pleased to be here today to tell you about one of the Small Business Administration's top initiatives: International Trade.

Currently, approximately 250 corporations in our nation do 80 percent of U.S. exporting, but these corporations' huge share certainly and clearly demonstrates that in a country as great as America we can do a much better job in getting small firms involved in International markets.

Fifteen percent out of over seventeen million small businesses in this country could participate in the field of international trade, but they are reluctant to get involved for a number of reasons.

* *First, there are language barriers.*
* *There are differences in the monetary systems from one country to another.*
* *There is a lack of understanding of the laws and regulations they will have to deal with.*
* *There are different cultures.*
* *There is a lack of knowledge on how to contact buyers and how to approach them and interest them in your product or service.*
* *And, of course the goods have to be shipped and collections must be made. These factors, too, can be very complicated and discouraging.*

However, these obstacles can be overcome and they should not impede small businesses from getting into the export business.

In November, 1987, the Small Business Administration launched a series of ten International Trade Conferences especially designed to reach out to small business owners. The last conference of the series was held in Dallas, Texas on September 22-23, and it was a roaring success. Over 750 people attended this forum, which indicated to me that small business owners have realized that the time has come to expand their horizons. And they are ready to try it out.

One of the best features of our International trade initiative is that we are not seeking more government programs. We need to take advantage of the programs that are already in the books--and this is why SBA is working with the Department of Commerce, the State Department, the Export-Import Bank, the Agency for International Development, the Treasury Department, the Department of Agriculture.

It is very obvious to me that America and American business people must look beyond our

shores and accept global challenges. It's a must! Every nation in the world is looking at opportunities of free enterprise and how it can benefit their economy. They are identifying every country as a market place for their products. Make no mistake about it: the world has expanded and world trade is the goal of all developed countries.

We must better prepare ourselves for the challenges of world trade competition and meet them head on.

As I noted earlier, other nations are already preparing for the future--and so must we. We must get America thinking globally about trade opportunities. Small business holds the key.

Small business can compete and compete successfully. Right here, almost in your back yard you have a perfect example of a small business that is successful in exporting. I am referring to Great Western Meat Company of Texas, a low-key operation located five miles southeast of the small West Texas town of Morton whose primary business is the slaughtering of horses for export trade.

This company has been in production since 1976 and today it qualifies as one of only two large employers in Cochran County. By the way, let me tell you, the original plant and equipment was financed by SBA, through our Lubbock District Office, with a loan under Section 502 of the Small Business Act.

The main market for horse meat for human consumption has been France, but Belgium, Italy, Holland, and Japan are becoming important markets.

Besides producing the meat for exporting, the plant provides horsehides for twenty to thirty percent of all baseballs produced in this country. Various organs and glands of the animals are used in the production of pharmaceuticals in Germany and France. Bones, fat, and other by-products are used for rendering meat meal and tallow.

This is not an isolated case...this afternoon you will hear from Dr. John Adams another success story. There are many more similar stories right here in Texas. Remember, for every one billion dollars we can sell in goods and services on the export markets, 25,000 people are put to work. Just think what this can mean to our economy.

In closing, let me remind you that today's opportunities to export are the best they have been in years. The environment we find in America is good for exporting.

Now is the time to start thinking world trade and exporting. You, too, can become successful participants in world trade.

Thank you.

Export Now: The Challenge To Go International

by

John A. Adams, Jr., Ph.D.
College Station, Texas

Today we live in a rapidly changing world. Major economic and industrial events are daily news. For Texas and our local domestic industries it is important to have an awareness of such changes and be prepared to meet the challenge.

Market opportunities worldwide are tremendous. Contrary to popular myth American products and services are in high demand...and this attraction is three fold:

A. *First, American know-how and technology is and always will be in great demand.*

B. *Secondly, American industry can and does produce cutting edge quality products...for some reason we have let the Japanese and German enthusiast convince us otherwise.*

C. *And thirdly, due to the relative decline in the value of the dollar vis-a-vis most major foreign currencies -*

American goods and services are very attractive and price competitive abroad.

U.S. EXPORT TRENDS

In the near term American exports are on a surge! According to the U.S. Department of Commerce the nation exported $250 billion in 1987 and estimates for 1988 are expected to reach $325 billion. The prospects for 1989 look great and I expect exports to exceed $400 billion. And even then, only a small number of U.S. companies are involved in world trade. In 1988 about 17% of all U.S. manufacturers (90,000 out of 545,000) exported. This is a poor level of participation, when compared with the fact that in a recent survey of Texas businesses by the center for International Business Studies (CIBS) at Texas A&M University, 35% of those not exporting indicated they felt they had goods or services that were exportable! Again the opportunity is substantial.

Though it is a bit flippant to say - the fact is well substantiated that the world is moving toward a "one world economy". And this trend has been growing at full tilt since the early 1980's.

Presented to the "International Trade Seminar", Midland College, December 2, 1988. Dr. Adams is President and CEO of The Meiller Company and was named the 1988 National Exporter of the Year by the Small Business Administration.

Containerization, overnight mail, space age communications, fax machines and rapid transportation are mere secondary indicators. The growth of world trade is actually the result of such larger issues and events as lower tariff barriers, the expansion of the GATT, a trend toward worldwide sourcing of component parts and the "Attitude" to go international.

Such a trend is resulting in the world economy venturing into the greatest geo-industrial shift, both in capital formation and manufacturing output, to date. This major shift involves many factors. Thus, I will single out only three trends or events that have an impact on both the present and the future:

THE DOLLAR

Though the dollar is the main source of world payment (the standard) - its value is being established on far away exchanges in Tokyo, London and Bonn. Today, for example, nine or ten of the top twelve banking groups in the world are in Asia. This shift in world capital assets has only begun to impact on the U.S. economy. And given the direction of the European cooperation movement - more capital and clout will emerge far away from America. The reorganization of banking and S&L interests in the Southwest has done little if nothing to help this situation. But what does this have to do with the exports opportunity for a small or medium-sized company? In the short run, not much ... however, companies need to be ever alert to price their products to make a profit and don't let short run economic indicators keep you out of the long term foreign market. The multiplier effect, as more and more companies export, will be tremendous. For example, for every $1 billion in exports over 20,000 jobs are created within the U.S.; more jobs stimulates the economy as well as expanding the tax base. Thus, going international has many secondary benefits.

THE TEXAS-MEXICAN FRONTIER

Closer to home is the emergence of the border economy between the U.S. and Mexico. The growth of production sharing or twin plant concept - better known regionally as "maquiladoras" has been nothing short of phenomenal. In less than two decades the number of border plants has grown from a few dozen to over 1300 operations. We in Texas - living so close to the border seem to miss or under estimate the significance as well as U.S. products price competitive both within the U.S. domestic market and in the larger world arena.

Thus the impact and opportunity only a few hundred miles from here is tremendous.

The Texas Department of Commerce (TDOC), various border chambers of commerce, as well as the regional economic development commissions have a list of services and goods in immediate demand. Though the list is extensive, the following is a sample:

- *injection molding and plastics*
- *tool and die work and stamping*
- *industrial refrigeration*
- *packing materials*
- *engineering technical services*

- *paints, special chemicals and solvent*
- *industrial replacement parts of all types*
- *communication equipment and software*
- *nuts, bolts, gaskets, and insulation*

and the list goes on and on.

Thus, Texas companies with excess capacity could find a ready market for their products. And, when shipping to the border payment is in U.S. dollars!

This boom is not just along Texas, but along the entire U.S.-Mexico frontier from Brownsville past Tijuana to the Pacific Ocean. With scores of Fortune 500 companies along the border and more on the way - it is a suppliers paradise.

Why the importance of the "maquilas"! Companies that have operations to produce component parts in Asia realized they could cut their expenses and transportation time from the Pacific by being closer to the U.S. domestic market. For many, it's like having Taiwan in their backyard....!

Keep in mind this is not a mirage but solid intense industrial development. In the next 24 to 36 months the U.S.-Mexican frontier will experience the greatest capital influx and industrial growth (combined with the rebounding of the Texas economy) of any region in the world.

EUROPE 1992 - 1993

A third trend of importance involves the actions of the European Community (EC) to move to a unified-no-boundary approach toward continental commerce. Realizing the economic power of the U.S. and the Pacific Rim nations, Europe (12 countries) has taken extraordinary measures to cooperate. Comprised of over 330 million people, the EC will enhance cooperation to maximize the competitiveness of their multi-trillion dollar industrial base and capacity.

The reason all this is important to Texas industry is that now is the time to devise market entry strategies to insure your firm is within the European system by December, 1992. While this to most Americans may seem far into the future - now is indeed the time to reconsider Europe as a market.

NUTS AND BOLTS

Finally, I want to concentrate on some of the "nuts and bolts" of international trade. These are intended to lower the false "fear barrier" that many U.S. exporters have when considering international barriers. Such concerns are well founded, yet should not present a barrier. Three of the highest concerns are:

1) *How do I get PAID*

2) *Why all the documents?*

3) *Is language really a problem?*

Each of these are manageable.

PAYMENT AND DOCUMENTS

Payment methods and terms vary in foreign trade, yet for the most part there are adequate protective measures to insure prompt payment. These methods include payment in advance, use of irrevocable letters-of-credit (LC's), the use of various forms of export insurance (FCIA or EX-IM Bank) as well as conducting all transactions in dollars. Care should be taken to identify a banker as well as freight forwarder who has clearly demonstrated expertise in financial document preparation.

With regard to other documents for shipping, place of origin, health certificates and insurance documents - care should be exercised to follow the rules and requirements exactly. One of the greatest allies in this process is a full service freight forwarder that has a staff knowledgeable in the area you wish to ship. Their know-how can save you both time and money. The fees they charge are but a small token when it comes to the peace-of-mind that your shipment will move in a timely manner and that payment is secured.

LANGUAGE

With regard to language - this is the most overrated problem (other than timely export financing). The international language of commerce and trade is English. Most key distributors and agents either have a working knowledge of English or have someone in their organization that can be of assistance. If this fails, the easiest way to eliminate any problems is to hire an interpreter! Such assistance is usually not hard to find and various embassies and freight forwarders can assist with those who provide these services.

However, even if the new foreign distributor/agent does speak English - don't get over confident - most of his office staff as well as his customers probably do not speak a word of English. Thus, all product literature, packages, instruction sheets, technical manuals need to be in the language of the country. This simple item has been overlooked by some of the biggest firms in America. Just because it works at home - does not mean it will work in a foreign market. Always have your customer in mind...and the rest will follow.

A number of other items warrant noting. There is a wealth of export trade information available from sources nationwide. At the local universities, chambers of commerce, the SCORE office, the SBA, and the Texas Department of Commerce all can provide either direct assistance, or tell you where to find answers. On the national level the U.S. Department of Commerce, U.S. Department of Agriculture and your congressional representative can help cut through the red tape. Commerce sponsors a variety of trade shows, and product

development seminars in certain foreign markets as well as providing excellent "how to" literature. In the private sector, such companies as InfoNational and Bristol International, both in the Dallas area, can be of tremendous assistance.

In the area of culture you must always remember you are a guest of the country you are visiting. Their customs, time schedules and business practices are as old (and many times older!) than those in America. Do not get in a hurry. More deals have been lost because eager American salesmen push too hard or at the wrong time to close the deal. The American Embassy Commercial sections in each country can usually provide a list of do'and don'ts. Relax - don't be the ugly American - foreign travel is much too expensive to let a small item alienate the customer.

CONCLUSION

In closing, a few key items must always be remembered. Be flexible...do not get in a hurry; much of any international business transaction is a long range process. Long range can be six months or six years - thus, the key is polite, well planned persistance.

Finally, if you are not in the international market place by 1990 you could lose or have lost as much as 25% of your potential sales and profits. The risk can be minimized and the hurdles overcome. The rewards for exporting now are tremendous.

BUSINESS NEGOTIATIONS WITH THE JAPANESE

Kazuko Rowland

Awareness of cultural differences is very important in negotiations with firms from foreign countries.

1. Status Relationships

Cultural differences regarding status relationships may be one of the most important causes for unsuccessful negotiations between Japanese and U.S. companies. Failure to understand the status relationship could end the negotiations before they even begin.

In Japanese society individuals relate to each other as superiors or subordinates. The basis for this status distinction may be one or a combination of several factors: sex, age, education, where a person was born and raised, position in a firm, even which firm. Every Japanese is very aware of such distinctions and of his position relative to others. The knowledge of these distinctions dictates how one will act during interpersonal interactions, including one's manner of speech. There are several levels of formality in the language. One is used to communicate with equals, one for superiors, and one for subordinates. There are some words that change their form to fit the formality.

One of the most helpful tools in determining how a businessman ranks in relationship to another involves the exchange of business cards. As mentioned earlier, there are several factors used to base one's status. Out of the six factors, two can be found in one's business card: his position in a firm and for which firm he works. After the ranking has been determined, he can decide the appropriate angle of bowing and the level of formality required in the conversation.

There are protocols associated with the exchange of business cards. The younger or lower-ranking person is supposed to offer his card first. The card should be turned so that the recipient can immediately read it. Soiled or damaged cards, or ones that bear messages that are not intended for the recipient should never be used. It is considered very impolite to offer cards like these.

2. Preference of Formality

The fact that Japan is a vertical society needs to be mentioned here again. Another fact that needs to be brought out again is the Japanese preference of formality. For these reasons, Americans' preference of calling each other by first name is not well accepted by

Japanese, especially by those middle to higher age groups and those with little international experience. The situation might have changed slightly since President Reagan and former Prime Minister Nakasone established a personal relationship of calling each other by their first names. However, unless your Japanese counterparts suggest it, don't start calling them by their first names.

3. Avoidance of Extremes

Another unique characteristic of the Japanese is the avoidance of extremes. One of the facets of this characteristic is the concealment of emotions. The emotions of an Italian are highly visible. The emotions of a Japanese, on the other hand, are concealed from the public eye. Without understanding this distinction, it is easy to assume that the Japanese are unfeeling people.

The second facet of the avoidance of extremes is the Japanese reluctance to say "no." The Japanese rarely say no bluntly or directly. How do the Japanese say "no"? Here are some polite refusals:

* *I will check on it and do whatever I can.*
* *I will do my best after I talk with my boss.*
* *I will think about it.*
* *I will handle it the best I can.*
* *It is very difficult.*
* *I will consider it.*
* *I will make an effort.*
* *I am not sure.*

How should Americans deal with the Japanese reluctance to say no to avoid possible misunderstandings? The possible polite refusals that are mentioned above are good things to remember. The recognition of non-verbal cues the Japanese might give would be useful with the help of an interpreter who can not only perform literal translations but also understand the cultural aspect of the language. Americans may emphasize in mild manner to the Japanese party the need to express opinions frankly in order to avoid misunderstanding.

The reluctance to say no is one good example of the Japanese tendency of vagueness of responses. The vagueness of responses is experienced frequently by those who have negotiated with the Japanese. In fact, this is one of the more frequently felt frustrations by the Americans. Americans complain that they don't know what the Japanese are thinking. Throughout negotiations American businessmen will give as much information as possible to be frank and honest in the effort of persuasion by answering endless questions brought up by the Japanese. On the other hand, the Japanese will carefully study the opinions of the other side, while offering very little information and remaining very vague about the position of their team. This vagueness may be partially due to the need to obtain concensus in decision making and the desire to save face later on, in case a reversal of position needs to be made.

4. Face and Face Saving

Face and face saving is a very serious matter in the Japanese society. Actually, it is important in any society. Nobody wants to be humiliated or insulted in public. The only difference is the degree of sensitivity. The Japanese are extremely sensitive in this matter. Americans' direct and aggressive approach sometimes make the Japanese feel uncomfortable and shy away from the direct confrontation. In negotiations the Americans should never back the Japanese into a corner but should always give them enough room to change positions without making them feel they have made a mistake.

5. Silence

Non-verbal communication works well in Japan. Japan is an island country and has always enjoyed racial homogeneity. The Japanese are able to anticipate the intentions and thoughts of one another to a great degree. One of the non-verbal communication methods is silence, or "meaningful intervals." During these silent moments, one senses the thoughts and feelings of another. In business negotiations the Japaense use these silent moments to allow matters to cool off and give both sides an opportunity to rethink the issue. The Japanese also use silence as a way to avoid confrontation or threats. It is more important to remain silent and keep harmony than to respond to confrontations in a truthful manner.

The underlying reason for reluctance to say no, vagueness of responses, concensus decision making, avoidance of extremes, and saving face is the emphasis on harmony. It is more important for Japanese to be polite and harmonious than to be frank and direct.
To the Americans, sincerity means being totally frank and honest. To the Japanese, however, it means not saying or doing anything that would make the otner person feel uncomfortable, hurt, or embarrassed.

6. Concensus Decision Making

Studies on Japanese management have shown concensus decision making as being one of the characteristics of the Japanese management style. In Japan pupils and students study and work together in schools. This is what is taught and practiced throughout our lives. Therefore, the Japanese are good at compromising when decisions are made as a group. As a consequence, it makes it difficult for a Japanese to voice his opinion, especially when it is totally different from the majority's.

There are some facts to remember concerning concensus decision making. Concensus decision making is very time consuming. This is the first thing that foreign businessmen must remember. A great amount of patience is needed. Secondly, since everyone on the Japanese negotiation team must agree to a certain degree, it is not enough to convince the representative of the group. To make the Japanese decision making even slower, sometimes the government or a committee, comprised of representatives from the government, industry, and finance is involved to provide a forum for the discussion of important issues. This will definitely delay the time it takes to arrive at a decision. Considering these facts about the way Japanese make decisions, a lack of immediate action on the Japanese

side should not be interpreted as a loss of interest or revocation of terms agreed upon earlier.

7. Rolls of Litigation

There are some interesting statistics to illustrate the roles of lawyers in Japan. In Japan there is only one attorney for every 10,250 people. In the U.S. there is one attorney for every 630 people. In 1970 there were 175,000 trials in Japan, at which time its population was approximately 113 million. In the state of Ohio in 1970, with its population approximately 10.6million at that time, there were 138,643 trials.

In Japan there is a general belief that lawyers tend to destroy the harmony by focusing on the positions of their clients and ignoring compromises that benefit society as a whole. There is also a belief that a business relationship is built upon the principles of mutual trust, friendship, and cooperation rather than on legalistic grounds. Therefore, bringing a lawyer in at the earlier stage of negotiation implies the feeling of distrust of the other party. This kind of feeling surely obstructs the development of relationships based on mutual trust, friendship, and cooperation.

The Japanese attitude toward contracts differs significantly from that of the Americans. The Japanese view a contract not as important as a harmonious relationship in a business transaction. The Japanese believe that all practical problems should be resolved through mutual compromise and accommodation.

8. Quality Control

One of the factors that made a great difference in the reputation of the Japanese products is the consistant high quality. The concept of quality control was first introduced to the Japanese by an American, Dr. W. Edwards Deming after the World War II. His principles of management and quality control did not get much attention in the U.S. at that time because after the World War II, North America was the only source of manufactured goods for the rest of the world. It was indeed a seller's market. The condition of Japan after the War was extremely poor and miserable. Food was very scarce, and people were dying from hunger. Japan could not produce enough food to feed the people. Japan needed to export manufactured goods for money to buy food. However, Japan had a serious problem. Japanese products were known to be of poor quality. Something had to be done to change the situation. That was when Dr. Deming came into the picture. No wonder he was so well received.

The Japanese people attributed the rebirth of the country to Dr. Deming's work, and the Deming prize was established in 1950 by the Union of Japanese Scientists and Engineers (JUSE) with proc :ds from reprints of Dr. Deming's lectures. The Deming Prize has become one of the most coveted prizes of Japanese industrial firms. In 1984 Japan invited foreign firms to seek the prize. Florida Power & Light has applied for the prize to be awarded in late 1989. The prizes are awarded each year to companies adept at using the Total Quality Control (TQC), which was expanded from Dr. Deming's Statistical Quality Control. The quality in TQC

does not mean merely the performance of a product or service. It means the quality of work, quality of service, quality of information, quality of process, quality of division, quality of people, including workers, engineers, managers, and executives, quality of company, and quality of objectives.

As an extension of the Quality Control Circles, Japanese industries have implemented a zero defect movement. The movement emphasizes the need to identify the causes of various defects and to devise methods for minimizing errors. A certain level of defect which is acceptable to most U.S. manufacturers is not an acceptable standard in Japan.

9. Problems and Concerns

When two parties from two totally different cultural backgrounds meet to negotiate a business deal, frustrations and discomfort are experienced by the negotiators of both sides. This is particularly true in negotiations between American sellers and Japanese buyers. John L. Graham describes the bargaining behaviors of Americans and Japanese this way: "Bargaining between Americans is like two brothers bargaining. Status relations are relatively equal and therefore unimportant, "fair" offers are made, and discrepencies are settled through heated argument. Alternatively, negotiation between Japanese is like that between father and son. The status relationship is explicit and important. The son (seller) carefully explains his situation and asks for as much as possible because he will have no chance to bicker once the father (buyer) decides. And finally, the son (seller) accepts the decision because it would hurt the relationship to argue, and because he trusts the father (buyer) to care for his needs." This analysis describes the horizontal relationship between American negotiators and the vertical relationship between Japanese negotiators in a manner that is easily understood.

Given the differences in the relationships in the two countries, what happens in cross-cultural negotiations? When a Japanese seller and an American buyer try to negotiate, there won't be many problems. The Japanese seller will assume a lower position, and he will tolerate the frank and aggressive persuation tactics from the American buyer. However, when the roles are reversed, and a Japanese buyer and an American seller try to negotiate, the circumstances are totally different and problems arise. The Japanese buyer expects the American seller to treat him like the father in the father-son relationship decribed earlier. If the American seller is not aware of the status relationship and treats the Japanese buyer like a brother, the negotiation will not go very smoothly.

10.Conclusion

To have a successful negotiation with a group of Japanese the emphasis should be first placed upon the products themselves. The products or services must be truly unique because of the competitive nature of the market. The quality must be consistantly high. After-sale services are just as important.

Secondly, the emphasis is placed upon the awareness of and the mental preparation for

the cultural differences. It requires an effort to be open-minded and flexible. They are inportant factors in preparation for experiencing a totally different culture. The mental preparation works as a shock absorber.

There are numerous books and magazine articles available on Japanese business practices and social customs. Perhaps reading books and articles written by several authors might give a reader different views on the same topic, perhaps, better understanding.

Foreign students are an excellent source of information for cultural and social studies. They can be usually found on college and university campuses. By talking to them you will probably experience some of the things you learned from reading books. You will also find out th difference of mere knowledge and true understanding. You may discover some important things the authors never mentioned. These are important experiences because they will more likely stay with you at a negotiation table where the attention must be divided into so many different areas.

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EUROPEAN ECONOMIC UNIFICATION

Toby D. Atkinson

INTRODUCTION

ECONOMIC GEOGRAPHY OF EUROPE

REFORM PROPOSALS

UNIFICATION OF MARKETS

OPENNESS OF MARKETS

CONCLUSIONS

INTRODUCTION

I've chosen an ambitious title for my segment of this International Trade Seminar. I have no idea whether you welcome European Economic Unification, or are hostile to it, or regard it as irrelevant.

I would like to persuade you that it is a process which is mildly positive for you both as citizens and as business people.

What I really need is a Walt Disney movie called "One Hundred and One Directives". Without that kind of presentation skill, I am reluctant to plunge into detailed information on toy safety and electromagnetic compatibility rules. I do have two publications to give you, which cover some recent history and some current events.

But what I would like to achieve is to convey to you some sense of what is taking place and how fast it is moving.

The European Economic Community (EEC) was originally formed in March 1957 and has grown into an association of almost all the Western European countries. The non-member countries belong to an organization called the European Free Trade Association (EFTA), which cooperates closely with the EEC on economic matters.

The European countries vary enormously in size and economic strength. What a business planner should see on the European map of Europe is:

- three and a half high-population highly industrialized markets (U.K., France, Germany, Northern Italy).

- three small but densely-populated, prosperous industrial markets (Belgium, Netherlands, Switzerland).

- one high-population market, low-income but rapidly industrializing (Spain).

- six small prosperous markets which each consist of a single major urban area (Austria, Denmark, Finland, Luxembourg, Norway, Sweden).

-three and a half relatively rural, unindustrialized, low-income markets (Greece, Ireland, Southern Italy, Portugal).

Another way of looking at the economic geography of Europe from the outside is to see a 50,000 square mile area with a population of 50 million centered roughly on Brussels, Belgium - an area the size of Illinois with 5 times the population of Illinois. This is the highly industrialized area of the Benelux countries, Northern France and the German State of Nordrhein-Westfalen. Immediately adjacent to this heartland are two more areas of massive economic activity: the "Agglomeration Parisienne" around Paris, France, and the "Home Countries" around London, England. This brings the total up to a market area of 80 million people packed into 80,000 square miles. The rest of economic Europe consists of a relatively small number of major urban areas. Outside of the areas I have just described, levels of income and prosperity drop off quite rapidly and are no longer comparable to anywhere in the United States.

HISTORY & GEOGRAPHY

The EEC had already achieved several significant unification measures by the 1970s, but they were felt to be "incomplete" when compared to the original goals set out in the Treaty of Rome. Let me give you some examples, a brief status report on freedom of movement:

-FREEDOM OF MOVEMENT OF PEOPLE

Employees have been free to live and work in other member countries for some time. However, their professional qualifications are not recognized outside their own country, and their social security and pension contributions do not count in their home country.

-FREEDOM OF MOVEMENT OF GOODS

Tariffs between member countries were abolished some time ago. However, border controls continue to exist for a variety of reasons: taxes, farm product price supports, veterinary controls, transport controls, statistical formalities, and enforcement of bilateral trade quotas.

-FREEDOM OF MOVEMENT OF CAPITAL

Exchange controls have been abolished in most countries (not all) and financial institutions are mostly free to set up subsidiaries in the other countries. However, discriminatory regulations abound and cross-border solicitation of financial services is generally not allowed.

A combination of events set things moving three years ago. First, there was a decision in the European Court of Justice known as the "Cassis de Dijon" case. Cassis is a fruit drink produced around the French town of Dijon. It is very popular in France, particularly when diluted with white wine. Its sale was illegal in Germany. The Court struck down the German regulations as being disguised protectionism and incompatible with the Treaty of Rome. Coincidentally, the European countries were arriving at a political agreement on a multi-year agricultural budget. That meant that energies were released from an excruciatingly difficult and delicate problem and people were free to look at other endeavors. Two people in particular seized the initiative: a Frenchman called Jacques Delors and an Englishman called Francis Cockfield, both sent to Brussels by their home governments to serve as Commissioners. A package of reform proposals achieved political consent of the member countries in 1985 and became law in 1987, known as the Single European Act (of the European Parliament).

EUROPEAN POLITICAL GOALS

LARGE MARKET

ECONOMIC AND SOCIAL COHESION

SCIENTIFIC AND TECHNICAL DEVELOPMENT

EUROPEAN MONETARY SYSTEM

SOCIAL DIMENSION

ENVIRONMENTAL ACTION

REFORM PROPOSALS

Before I talk about the impact of the Single European Act on non-European business, let me clear the ground by mentioning briefly some of the areas of the Act that do not affect us here. I want you to be aware that the items we focus on are by no means the only issues being discussed and worked on in Europe.

Six political goals have been established. The terminology is a little strange as a result of being directly translated from French.

- **"Large Market Without Internal Frontiers"**
This is the goal which concerns us most in the United States and I will return to it in detail.

- **"Economic and social cohesion"**
This is primarily a matter of internal budget reform. Economic cohesion means shifting the population from declining industries into growing ones, and social cohesion means helping economically backward geographic regions.

- **"Scientific and technical development"**
The practical manifestation of this is cooperative international research programs particularly in the areas of the aerospace, computer and electronics industries.

- **"Strengthening the European Monetary System"**
Most European currencies are managed in relation to the value of the German mark. Strengthening the system means inducing the remaining countries to join it and means moving gradually towards the establishment of a central bank and then a common currency. Strong opposition exists from certain quarters, such as the British Prime Minister.

- **"Emergence of a European social dimension" ("L'amorce d'un espace social european")**
This was intended to be a series of moves against what the Europeans call "social dumping" - the migration of companies out of countries with strict labor law into less regulated ones. Strong opposition again exists from the same quarters as above. Only very tame measures have any chance of enactment.

- **"Coordinated action relating to the environment"**
The actions proposed are very familiar to American readers and address such problems as atmospheric emissions, hazardous wastes, preservation of species, and acid rain.

As you see, there is no direct impact on business except for the "completion of the large market".

UNIFICATION OF MARKETS

Your perspective on the current state of unification depends on which industry you are in. If you are selling computers or aircraft, it looks very European already. If you are selling medicines or insurance, people's needs look very similar everywhere, but every government has created a different regulatory environment. Selling telecommunications equipment or power generation equipment outside the country of manufacture has been close to impossible.

In the highly international industries, like computers, the impact on you will be indirect. The few technical differences which exist between European countries will not go away. You should benefit from reduced administrative formalities on international shipments, and indirectly, from growth caused by increases in efficiency and competitiveness.

In the regulated industries, like pharmaceuticals, you are likely to experience significant steps towards unification of the market. A procedure has been in place for some time whereby you can make simultaneous applications for approval in a number of countries once your product is approved in one of them. In the past, it was hoped that a single European agency would one day approve products. This approach has been so difficult to negotiate (not only in the pharmaceutical industry) that an alternative policy is being promoted amd is much more likely to succeed: that is, the mutual recognition of national decisions. In the pharmaceutical industry, regulations have not been agreed, but you can expect a significant reduction in the amount of repetitive testing for quality and safety of medicines. Also, steps will be taken to reduce the large price differentials which currently exist between countries. The regulators are very concerned about the potential for "parallel imports by entrepreneurs". Their first directive will probably require "transparency" of pricing quite soon, which will compel national governments to disclose their criteria in setting prices for medicines.

For suppliers to the nationalized industries, markets which were closed will start to open up. Efforts will particularly concentrate on reforming the telecommunications authorities, with whom dissatisfaction is quite widespread. There is every prospect that by 1992 there will be a fully open market in equipment and many telecommunications services, except for voice telephone service which will remain a local monopoly with the PTTs playing the part of local Bell operating companies.

AMERICAN CONCERNS

EXTERNAL TARIFFS

QUANTITATIVE RESTRICTIONS

RECIPROCITY

TECHNICAL STANDARDS

NATIONAL TREATMENT

EUROPEAN CONTENT

ANTI-TRUST

OPENNESS TO NON-EUROPEAN COMPANIES

There is a lot of anxiety in business and government circles in the United States about the possibility that 1992 might see the creation of a "Fortress Europe" with high barriers to external trade. The suspicion is mutual. European policy-makers are afraid of protectionist sentiment in the United States.

I would like to make some reassuring predictions. Based on what I hear from peoplee in the front lines of negotiations, I do not believe the worst will happen.

I do not expect external tariff barriers to rise to astronomical levels. The Europeans have a legalistic view of GATT and are negotiating the Uruguay Round in good faith. They naturally defend their interests with vigor, but they believe in the goal of open world markets, and they are not about to pay compensation to the USA or Japan as the GATT price for a tariff hike. The only danger is pre-emptive action by the USA.

Exceptions: public procurement is not protected by GATT, and the European governments and nationalized industries probably will discriminate against American exporters and you will have no redress. Nor are services protected by GATT, in general.

I expect restrictions on such diverse merchandise as automobiles, textiles and bananas to remain in force, somehow. But quantitative restrictions are aimed at Japan and at Eastern Europe, not at the United States.

We have heard alarming statements from some European leaders about possible restrictions on U.S. financial institutions. The U.S. position has been that an American bank in Europe should be free to do whatever a European bank is free to do in Europe. The most extreme alternative view in Europe has been that the American bank should only be free to do whatever a European bank is free to do in the United States. While superficially reasonable as an exercise in logic, it must surely be clear to everyone that the U.S.A. is not going to recast its banking system for reasons of external trade. Once again, I do not expect the worst to happen. Many countries want open financial markets. The United Kingdom obviously does, since London is such a well-established financial center, but Luxembourg and the Netherlands are also strong supporters of international financial competition. I think it was not deliberate policy to inflame U.S. public opinion on this issue and recently the European Commission has been making statements on reciprocity designed to reassure the United States (and Japan) that extreme views will not prevail.

Let me turn to another issue that causes anxiety here. Many executives fear that technical standards will be used as a protectionist measure. Related fears do exist inside Europe, since

Germany dominates standarization efforts. There are several positive signs to set against these fears: (a) U.S. companies in Europe are fully involved in the standardization discussions, which Europeans feel are more open than they sometimes are in the United States; (b) Europe is adopting international standards where they exist; (c) there may be some moves towards mutual recognition of non-European standards or at least of non-European testing organizations.

I mentioned that U.S. companies in Europe were participating in standards committees. This is an example of European adherence to the policy of "national treatment", meaning that a company is regarded as belonging to the country where it is incorporated, without regard to the nationality of its owners. This principle is not under attack.

I wish I could say the same about "local content"! The ownership of a manufacturing plant can be foreign but if its output consists of imported components fastened together with a couple of locally-manufactured bolts and packed into a locally-made cardboard box, then its status as European may be disputed by competitors or by governments. The political steam behind this issue is the desire to prevent the evasion of anti-dumping provisions. There are likely to be regulations stating that if an anti-dumping case has succeeded against you, then anti-dumping duty can be applied to the output of a screwdriver plant. None of this is going to get resolved any time soon. The Japanese are systematically challenging the European Commission on every anti-dumping case. The basis in law for enforcing European-content requirements is not clear: the last substantial transformation of a product must be in the EEC, but what is substantial and what is insubstantial? The best precedent is the EEC/EFTA origin rules which require 60% local content for an EFTA car like a Saab to be imported into the EEC without duty. The best-known example of a country disregarding this precedent is the French attempt to deny European treatment ot Nissan cars built in England unless they have 80% European content. Other indications of acceptable levels are to be found in the various voluntary restraint agreements, which sometimes specify import percentages of automobiles and consumer electronics such as VCRs. My emphasis here is on finding out what is reasonable and customary and likely to be accepted, rather than on encouraging you to do battle in the European Court of Justice, although I must say that if you have the economic and political muscle, and the patience, then you can get help from sovereign governments in fighting the battle.

The last issue on my list of American executives' concerns is the control of mergers and acquisitions. Unfortunately, there is not much I can say right now. Our best guess is that European control will be limited to the biggest cross-border mergers, with 50-100 cases examined annualy. The U.K. Government is concerned that there should be no double jeopardy, in other words, that a merger approved by the EEC should be immune from review by the national governments of the players.

CONCLUSIONS

December 31, 1992 will not go down in history as "European Economic Unification Day", nor as the day the drawbridge into Fortress Europe closed. Economic unification has been an ongoing process since at least 1957. Considering we are talking about peoples who

have fought each other for at least a thousand years, and who have 20 different linguistic, political, legal, architectural and culinary traditions, it is amazing that they have achieved as much agreement as they have. The Single European Act is one step forward, but the EEC is still a long way from being a Federal Government.

As citizens and as business people, I think you should welcome the events that are taking place. For the United States, a Single Europe will be a better ally, a better market and a fairer competitor. But have some patience and don't expect political miracles. Europeans are nervous about what is happening. If they are going to lose some local control of their economies and governments, they want to be sure they are getting a better deal with the right safeguards. And remember that one of the driving forces towards unification is the apprehensiveness that Europeans feel when they think about the strength and vigor of the United States of America.

Texas Export Opportunities With Mexico

Rebecca Bannister

The Texas Department of Commerce is a little over one year old. We were created by the legislature and the governor to stimulate job creation in the state of Texas.

My job is to set up programs which meet a few of the specific objectives that the legislature required of our department. In particular, the Commerce Department is charged with promoting Texas exports of goods and services; we are specifically required to give priority to increased trade with Mexico. We are also to maximize the potential of the border region for the benefit of the entire state.

I'd like to tell you about the opportunities that exist for Texas in Mexico and along our border, and then tell you about our programs which are designed to let you, our business community, benefit from these opportunities.

Mexico has been the third largest market for U. S. exports in recent years. In the last three years, the U.S. has held, on average, a sixty five percent share of Mexico's market for imports. This amounted to 14.6 billion dollars in 1987.

Mexico is Texas's largest market. Twenty eight percent of our state's $20 billion worth of exports last year were sold to Mexico. That means we sold nearly six billion dollars worth of goods across the border ($5.7 billion) in 1987, over one third of the total U. S. exports to that country.

The Mexican market for U.S. and Texan products is growing. Mexico's private sector imports are up sixty eight percent this year over last. Consumers have been importing one hundred percent more than they did in 1987. In the first half of this year alone, purchases from the U. S. increased fifty four percent, and the U. S. increased its share of the Mexican import market by three points. Frankly, Mexico is one of the brightest spots in the U. S. trade picture.

Now before I get started explaining why this is so, I want to address a question or bias many of you might have had when you came into this room.

Past experience tells me that many of you have a little devil on your shoulder right now saying.. "How can she be right? Mexico's in debt up to its eyeballs. It's been struggling with its debt since 1982. How on earth can they be buying and paying for 6 billion dollars worth of Texas products every year???"

I assure you they are. Debt does not necessarily mean no spending. Who is the largest debtor country in the world today? Right. The United States. And yet we are still buying, and paying for billions of dollars of consumer electronics, automobiles, clothes, shoes, from overseas every year.

There's nothing wrong with that. Trade is the engine of the world economy now. In fact it's the engine of the U. S. economy (despite our trade deficits).

So I just wanted to bring this up before I get into the details about export opportunities with our southern neighbor. A number of factors, some of which have occurred in the last year, make Mexico a very attractive market for Texas exports. I'd like to tell you about just two factors.

First, I'll talk a bit about the Maquiladora market along our border; then, I'd like to tell you about the new openness of the Mexican market resulting from U. S.-Mexico bilateral trade negotiations, and especially from Mexico's joining the GATT in August, 1987. Finally, I will give you some specific examples of products that have a good chance for export success into Mexico, and I will tell you how you can get involved in this market.

MAQUILADORAS AND THE TEXAS ECONOMY

In the area of border development and the Maquiladora program, the Texas Department of Commerce has undertaken an intensive study of the business opportunities generated by the tremendous growth in the number of Maquiladoras (or offshore assembly and manufacturing plants) along our border with Mexico.

There are 600 major U. S. and foreign-owned auto, electronics, textile, and consumer product manufacturing facilities in Northern Mexico along the Texas border. The important thing to remember is that these plants import about ninety eight percent of their components (the machinery, tools, plastic parts, wire, metal stampings, etc.) from the United States. And these purchases translate into a number of jobs in the United States.

These plants buy their components from over 200 major suppliers in Texas. Their total purchases in the U. S. amount to well over six billion dollars a year. The International Trade Commission estimates that because of these linkages, the Maquiladoras along Texas' border are responsible for 22,500 jobs in the state.

One of our current special projects at the TDOC is aimed at making the Maquiladora program create more jobs in Texas than it has in the past. To do this, we're not just promoting Mexico's border for cheap manufacturing. Rather, we are studying the components that these Maquiladoras are purchasing and shipping in from the U. S., so that we can locate and match Texas suppliers with these buyers.

Our goal has been to find out what goes into the various industries' production and assembly facilities in Mexico--in terms of plant equipment and machinery, and component parts. Many of these components are being shipped all the way from the northeast and midwest. Texas is the state with the most supppliers, but we want to bring more Texas firms into that supply network.

We are convinced the Maquiladora industry along our border represents a major long-term opportunity for the state of Texas. Not only is the Maquila program an important way to attract new businesses to the state, it represents an important market for Texas products.

To date we've begun collecting lists of major purchases made by the larger Maquiladora companies along the border (like General Motors, Ford, Zenith, and General Electric). We're reviewing the experiences and problems each of these companies has had with either locating Texas suppliers, or relocating suppliers from out of state. Commerce and our local community allies will be able to use this information to:

1) Target potential supplier industries for relocation to Texas. The trend toward just-in-time inventory for manufacturers makes Texas an attractive location for suppliers of these components.

2) Learn from the large Maquiladoras' supplier selection criteria to work with Texas businesses which are not currently, but might become, suppliers.

We'll be working with procurement and export assistance centers to help qualified Texas companies with the stringent bid processes of the major corporations running the Maquiladoras.

We know right now that there is a real need, all along the border, for

tool and die work

plastic injected molded parts

metal stampings

heat treatment and plating

solvents

packaging materials, like corrugated boxes and pallets, and

finishing products like paint and varnish

fasteners - screws, nuts, bolts

Many of these materials are supplied by Texans. GM sources fifty to sixty percent of its direct and indirect materials needs in Texas, but is always looking for more cost effective suppliers.

The beauty of selling to a Maquiladora is that you are selling to a U. S.-owned corporation. Often, in fact, you're selling to the home office in the midwest and getting paid in dollars, even though your product is crossing into their Mexican plant. It's one way to go international without worrying about currency or language differences.

TRADE WITH MEXICO

Texas is in an ideal position right now to develop our ties with the Mexican market thanks to Mexico's joining the general agreement on tariffs and trade a year ago. Their willingness to remove trade barriers has resulted in a series of negotiations and agreements between the U. S. and Mexico called the bilateral framework trade agreement, which is very similar to the agreements that led to the U. S.-Canada free trade agreement which will be adopted shortly.

Already there has been significant progress in opening the Mexican market. Import duties were reduced across the board. The maximuim rate is twenty percent, and there are only four other rates allowed: 0, 5, 10, or 15 percent. The average duty is only 5.4 percent, down from twenty five percent. That rate is lower than the average rate imposed by most of our major advanced economy trading partners.

Tariff protection was traditionally the cornerstone of Mexico's economic policy to protect their national industries from more advanced foreign competition. Quite suddenly, in order to lower the costs of imported raw materials and components for Mexican manufacturers, and to stimulate Mexico's manufacturers through competition, the Mexican government has decided to remove those protective barriers.

For many years, Mexico would require import licenses for foreign products that might compete with domestic industry. Licenses were difficult or impossible to get. In 1987 and 1988, Mexico eliminated the import license requirement for 8,163 items. Now only 293 items remain subject to the import license requirement.

There are, however, still some products which are adversely affected by some non-tariff barriers in Mexico. Import licenses are still required for pharmaceuticals, autos, heavy construction equipment, textile machinery parts, and leather products. Applications are granted on a case by case basis, and can be denied if there are acceptable substitutes made in Mexico.

Mexico also used to impose a minimum import price by calculating an "official price" rather than allowing the normal transaction value. It abolished this practice in December of 1987.

The framework trade agreement assures that trade negotiations will continue on services, technology transfer, electronics, investment, and protection of patents and intellectual property. These agreements will be added to the textile treaty, and the agreement allowing imports of U. S. wine, beer, and distilled spirits in exchange for U. S. allowing more imports of Mexican steel, which were signed last year. Our office will keep track of the opening markets and encourage Texas businesses to compete for this business.

EXPORT PROSPECTS FOR MEXICO IN 1989

Let me tell you what the best thirteen industry prospects for exporting to Mexico in 1989, as determined by the foreign and commercial service post in Mexico City are, in rank order. (But before I do, let me just say that this is a good news list for this region...I have read the recent analysis of your economy's past, present, and future, and I'm happy to report that your

diversifying economy matches several of these booming Mexican market opportunities):

The best prospect is...telecommunications equipment and services. The U. S. is the single largest supplier of this equipment to Mexico, with a fifty seven percent share of the import market valued at $52.4 million. The best sales prospects include central office switches, satellite communication systems, data communications equipment, telephone sets and cellular telephone equipment.

Communications, software and peripherals. The computer market has experienced the most dynamic growth rate of all Mexican industrial sectors (10% growth per year since 1980). The U. S. is the single most important source of imports to Mexico with an 89 percent market share valued at $177 million in 1987. Microcomputers, peripherals and software are the most promising prospects.

Machine tools and metalworking machinery are in demand despite Mexico's economic crisis, and the market is expected to reach $800 million by 1990. New steel and automotive projects account for the demand, as do the railroads, shipyards, mining, cutlery and tableware, fasteners, metal furniture, truck, bus, and semi-trailer manufacturing industries.

The fourth most promising export prospect for Texas in Mexico is oil and gas field machinery and equipment. Pemex, the Mexican state-owned oil company, will continue to buy needed telecommunications equipment, firefighting systems, precision instruments, pumps, compressors and refrigeration equipment, oil well drilling and production equipment, cranes, measurement and control instruments, pipes, valves and fittings, and chemical products. Mainly from U. S. suppliers. In 1987 Pemex imported $872 million in machinery from the U. S. That amount is expected to increase to $907 by 1990.

End users of plastics and resins are found in every sector, and the Mexican plastic manufacturing industry has shown a particularly high growth rate the last decade. Best sales prospects include extrusion machines, injection molds, mixers and related equipment as well as resins. Printing and graphics equipment, medical instruments, equipment and supplies, agricultural machinery and equipment, safety and security equipment to protect against industrial accidents and crime, electrical power production and distribution equipment, ceramic and glass making machinery, cutters, bottle makers, and polishers, concrete and cement equipment, hotel and restaurant equipment to supply Mexico's gigantic tourism industry, pollution control equipment and instrumentation, and mining machinery and equipment round out the top prospects.

How can Texas maximize its benefits from trade with Mexico and the Maquiladoras? First, by seeing that Texas' businesses know about the opportunities.

EXPORT ASSISTANCE CENTERS

One of the Office of International Trade's tasks in our first year was to establish a network of export assistance centers and allies across the state so that we could have a system for alerting local businesses to these kinds of export opportunities. This network was set up to receive

and distribute trade leads from our office, and to help local businesses access state and federal programs and materials which also help them become exporters.

The centers have export assistance materials to help the would-be exporter reach potential markets (including how-to-export financing, and market studies.) We keep them posted on trade opportunities and information on financing and markets on a regular basis. Once a week we load new trade leads onto a computer bulletin board system which they can access. In exchange, the network keeps us posted on the businesses in their area which are exporting or would like to be. This helps us, in Austin, to keep up to date on Texas' inventory.

Your region has been quick to join our export assistance network in a big way...in Midland you have an export assistance center program which is sponsored by Midland College Business and Economic Development Center and the Chamber of Commerce. The Odessa Chamber of Commerce is an export ally, as is the small business development center at the University of Texas Permian Basin Campus. After this event is over, you can go to these export assistance centers and allies for follow-up information, or moral support if you are thinking of getting into exporting.

The International Trade Office also coordinates trade show participation for small and new export businesses with high export potential. We allow these companies to share a booth with the Office of International Trade, or our trade specialist will represent their product, to cut costs at trade shows which we have determined have a high potential for sales and long-term export prospects.

To give you an example...one of our office's trade specialists, Juan Vasquez, is leaving this weekend for Mexico City where he will help Texas businesses selling everything from medical equipment to jackhammers; from floor sealants used in construction to cosmetics; from forklifts to auto accessories...find agents and distributors in Mexico to represent their interests and assure a long-term presence in the Mexican market. One of the companies we're working with comes from nearby. Fast Eddie's from Andrews, Texas, is being introduced to the market and the U. S. Trade Center's services by our office.

Another associate director in my office is in Taipei right now representing 26 companies at a special show in Taiwan. He recently returned from a show in Seoul, Korea where every company he represented received over 20 serious requests for price quotations, and over 10 qualified inquiries from potential agents and distributors.

Trade shows are a marvelous way to test a new market quickly. Each of the top export industries I just mentioned will be the focus of a trade show arranged by the U.S. Trade Center in Mexico City during the coming year.

The Office of International Trade will also help cities and regions coordinate their own trade missions. For example, we helped the cities of Houston and Dallas to make highly productive business trade missions to Mexico this year. (Originally their missions had fuzzy objectives and no game plan for making appropriate business appointments. We suggested targeting the industries they brought along, and helped them use the Mexico City office to set up useful and productive business meetings.)

The Texas Department of Commmerce's business promotion activities in Mexico are greatly helped by our having a State of Texas office in Mexico City. We're the only state with an office in Mexico. It's there to help Texas businesses, public officials and citizens in their business dealings with that country.

The Mexico City office, with my office, will continue to encourage Texas businesses to participate in trade shows sponsored by the U. S. Foreign and Commercial Service in Mexico City, and to provide business people with useful contacts to smooth their entry into the Mexican market.

At the Texas Department of Commerce we firmly believe that any good economic development program must include a business retention and expansion program, and not just game plans to recruit outside industries. Export promotion is just that kind of program.

Exporting creates jobs. It smooths out the peaks and valleys of local boom and bust cycles for a business. It gives your product a long lifecycle. It's a business route ideally suited to smaller businesses which have the flexibility and speed to respond to the rapidly changing demands of the world economy. And exporting is the only way to go and grow in today's economy.

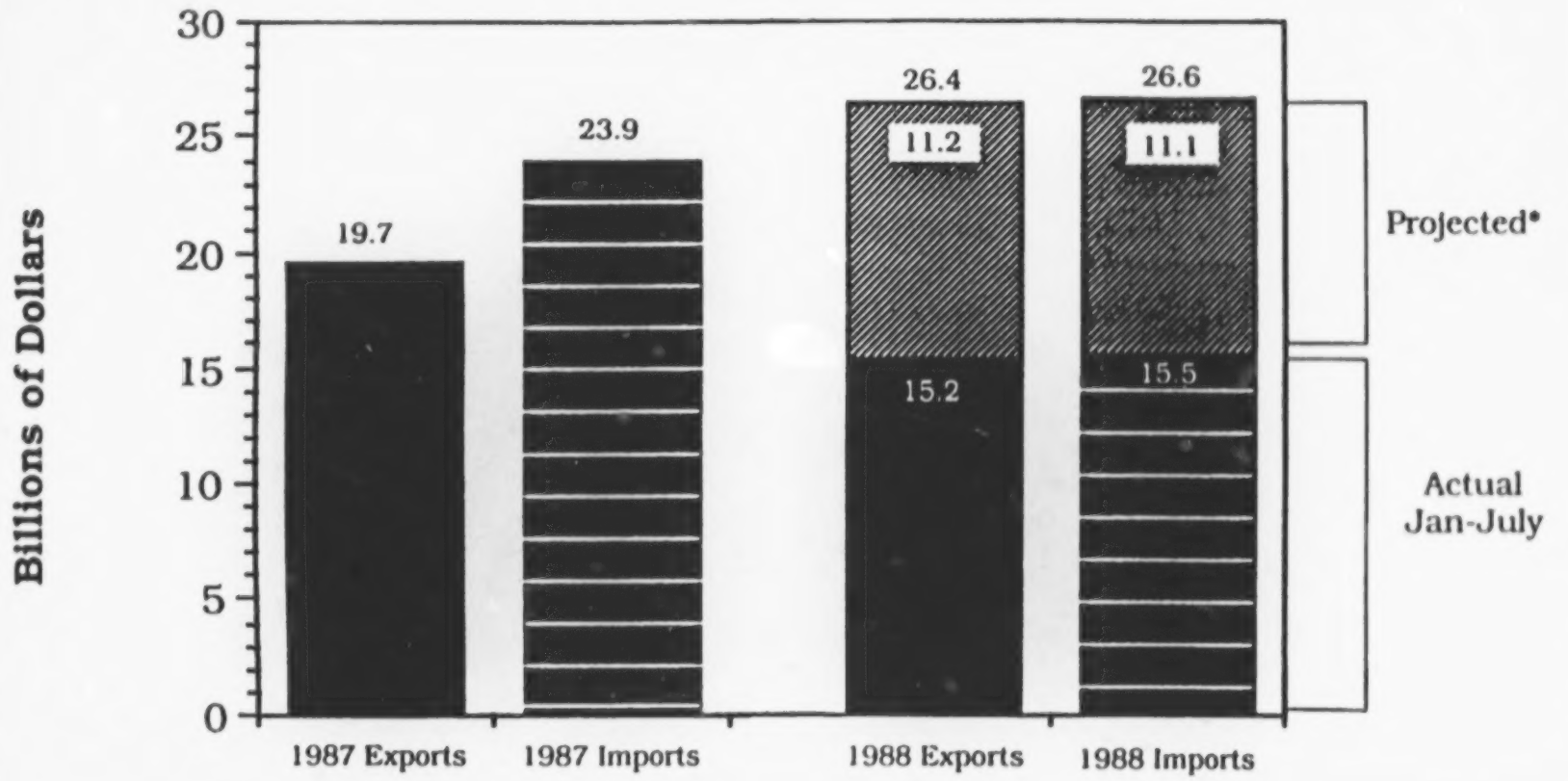
Your local export allies, export assistance centers, and the office of international trade are here to help you do that, as are the U. S. Department of Commerce offices and Small Business Administration.

I hope that this discussion of the opportunities in the Maquiladora industry along our border, and Mexico's dramatic reduction of barriers to U. S. imports which have occurred in the last year, has given you a brief overview of the opportunities that exist for Texas through increased trade with Mexico and better integration with our border economy.

I cannot stress enough how committed we at the Texas Department of Commerce are to pursuing the special advantages Texas has because of our unique border and our proximity to Mexico. I'd be happy to answer any questions I may have left you with.

But before I do...let me just leave you with some phone numbers:
the Mexico City office number is 011-525-566-3532 or 566-3350. The Texas Department of Commerce phone number is 512-472-5059, and ask for the Office of International Trade.

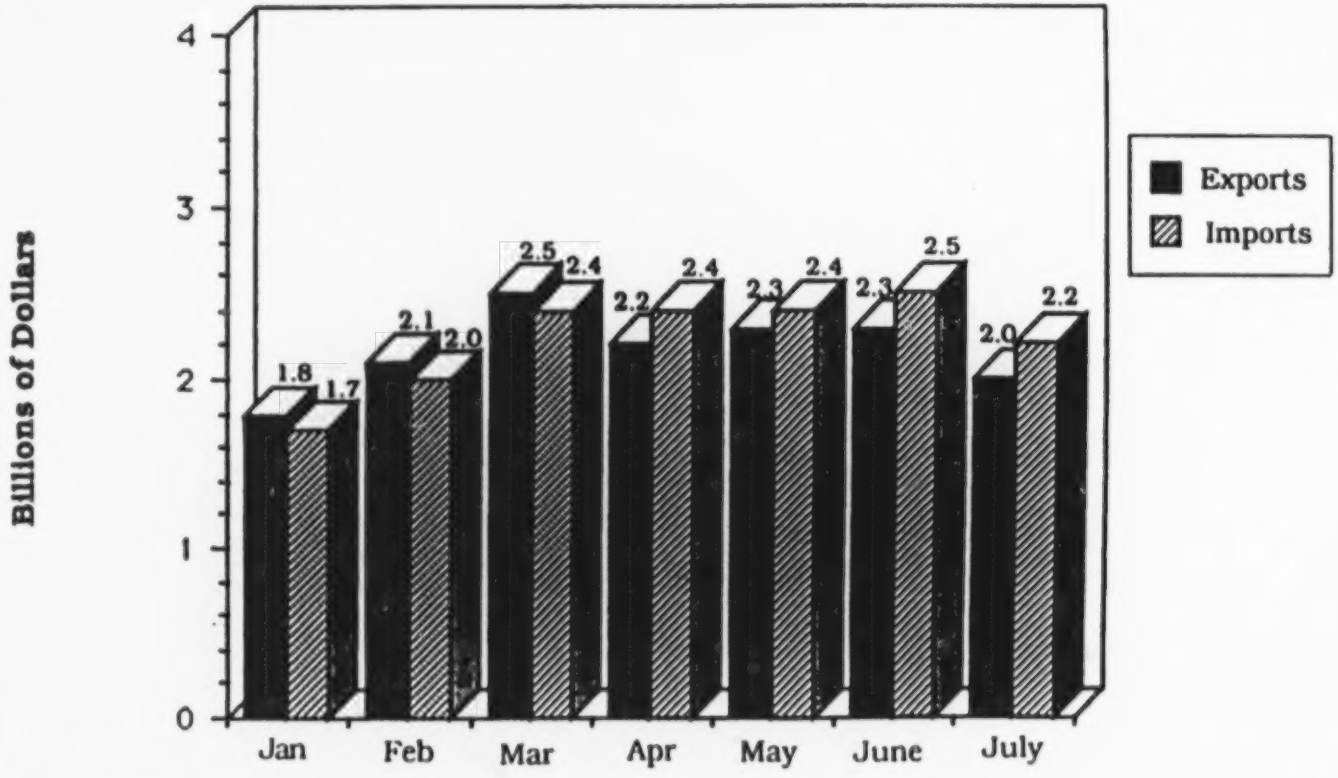
Texas Trade Balance, 1987—1988



*Projections are based on the assumption that exports and imports will continue at the same level during the last six months of the year as they did during the first six months. This assumption is based on trends in previous years, and is considered a modest projection of growth.

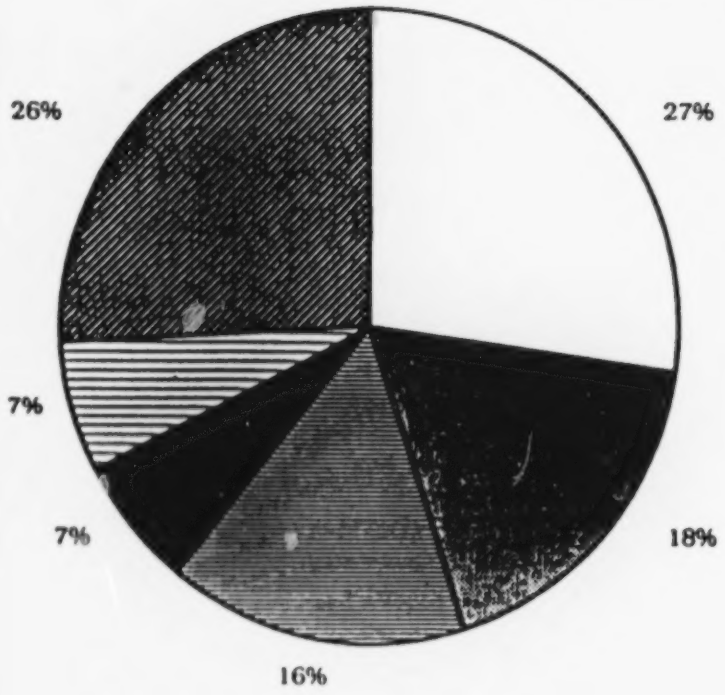
Source: U.S. Bureau of the Census. Highlights of U.S. Export and Import Trade, FT 990;
Projections are made by the Texas Department of Commerce, Division of International Trade.

Texas Trade Balance, 1988



Source: U.S. Bureau of the Census. Highlights of U.S. Export and Import Trade, FT 990. Jan-July 1988.

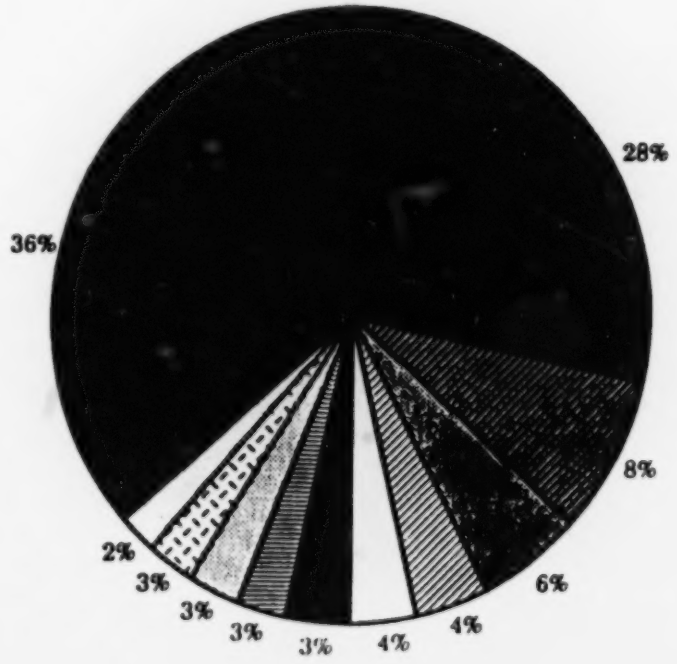
Texas Leading Exports-1987*
By Two-Digit SIC Code



Source: Texas Department of Commerce.

*The value of Texas exports in 1987 was $19.9 billion, according to Trade Info.

Texas Export Destinations-1987*



■	Mexico	($5.7 billion)
■	Canada	($1.6 billion)
■	Japan	($1.2 billion)
▨	Netherlands	($.8 billion)
□	United Kingdom	($.7 billion)
■	Taiwan	($.7 billion)
▤	Korea	($.5 billion)
□	Belgium	($.5 billion)
▨	Germany	($.5 billion)
□	Singapore	($.5 billion)
■	Other	($7.2 billion)

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*The value of Texas exports in 1987 was $19.9 billion, according to Trade Inflo.

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1989 EDITION OF EXPORT MANUAL FOR U. S. BUSINESS NOW AVAILABLE

A new, updated edition of the EXPORT SALES AND MARKETING MANUAL, the leading "how-to" reference manual on international trade for American business, is now available. The new edition includes a detailed explanation of the 1989 "Harmonized System" of classifying U. S. products for overseas shipment, the latest export licensing procedures, and new sources of information on foreign markets.

Written by veteran international marketing consultant John R. Jagoe, the EXPORT SALES AND MARKETING MANUAL is a 330-page procedural manual with in-depth chapters on developing export markets, organizing an international sales force, pricing and budgeting for export, writing international marketing agreements, securing export licenses, financing exports, and receiving payment.

The manual was first published in 1987 and costs $295. For more information, contact Export USA Publications, P. O. Box 35422, Minneapolis, Minnesota 55435.

The EXPORT SALES AND MARKETING MANUAL was made available to participants of the International Trade Seminar at Midland College as an example of a good reference for persons interested in international trade.

Jerry Lee Jones
Chairman, Business Studies Division
Midland College

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